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Streamlining Reporting
for

Office of the Secretary of Defense Funds

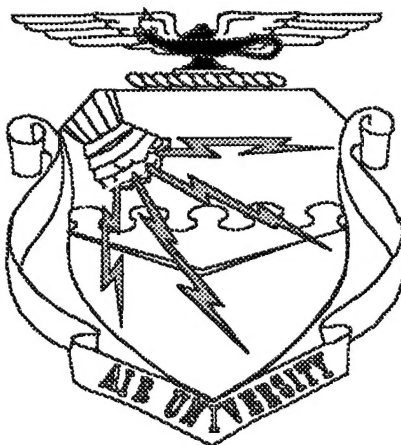
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PMCS IDEA PAPER

TITLE: STREAMLINING REPORTING FOR OFFICE OF THE SECRETARY OF
DEFENSE FUNDS

PMCS CLASS: 95-D

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EXECUTIVE SUMMARY

Part of our DFAS goal is to improve the quality of service to our customers while we consolidate finance and accounting functions. Our approach is to delve into virtually every area of financial management, improve it, and pass any savings on to the customers. As a result of an eight-month project I recently completed, I have a recommendation that is in line with the DFAS strategy, goals, and objectives. It is also in line with the DFAS plan for providing accounting support for Defense Organizations. My idea is to eliminate Defense Agency Accounting Offices from the reporting chain and to implement direct reporting for Office of the Secretary of Defense (OSD) funds to the DFAS Indianapolis Center, which currently performs the departmental reporting function. This recommendation should be implemented at the beginning of fiscal year 1996. The intermediary Defense Agency Accounting Offices are producing incomplete financial reports, causing unnecessary reporting delays, maintaining unnecessary systems, and generating unjustifiable costs our customers cannot afford. Other DFAS Centers are in the process of implementing this idea for other customers with great success and savings. My recommendation will do the same for Defense Agency customers.

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INTRODUCTION

Since its formation, the vision of the Defense Finance and Accounting Service (DFAS) is to provide "our customers real-time quality financial management information, accounting, and payment services at the lowest possible cost" (1:4). To accomplish this vision, DFAS established goals and a concept of future operations that included factors critical for measuring DFAS success (1:5-23). Our goals are far reaching. We expect to improve the quality of service to our customers while we consolidate finance and accounting functions. Through standardization, consolidation, technological improvements, and integration, we expect to reduce our operating costs. Our approach is to delve into virtually every area of financial management, improve it, and pass any savings on to our customers.

Our plan is aggressive. With the continual reduction in our customers' budgets, we have no choice. We are drastically reducing the DFAS workforce by consolidating approximately 300 finance and accounting sites to less than 30. At the same time we are reducing the number of financial management systems. DFAS is working toward one migratory system for each area of financial management. There are groups looking at each process within finance and accounting, as part of process re-engineering, to see if there are better ways to do our job. While many think these actions and our vision, goals, and concept of operations are too aggressive and not attainable, I feel they are wrong. We at DFAS have the dedication, drive, and commitment to make the DFAS vision become a reality. We have a responsibility to ourselves, our customers, and our nation

to do a better job for less money. It's an exciting time to be a part of this transformation of Defense finance and accounting.

As a result of an eight-month project I recently completed, I have a recommendation that is in line with the DFAS strategy, goals, and objectives I briefly addressed above. It is also in line with the DFAS plan for providing accounting support for Defense organizations (2:3-5). My idea is to eliminate Defense Agency Accounting Offices from the reporting chain and to implement direct reporting for Office of the Secretary of Defense (OSD) funds to the DFAS Indianapolis Center, which currently performs the departmental reporting function. This recommendation should be implemented at the beginning of fiscal year 1996 (October 1, 1995).

The Defense Agency Accounting Office reporting chain is the major cause for OSD fiduciary and budgetary reports being submitted late to Congress, OSD, and Treasury, to name a few. The so called 'Agency level' reports being prepared by these intermediary offices do not portray an accurate status of that Agency's funds. With the growing visibility of negative unliquidated obligations (NULOs) and unmatched disbursements (UMDs), DFAS must provide its customers with the most complete, up to date financial information at the earliest time possible. My recommendation will do that; and as a side benefit, it will decrease the costs to our customers through the elimination of this extra system and reporting layer. The DFAS Indianapolis and Denver Centers are in the process of implementing this idea for their Army and Air Force customers, respectively, with great success and decreases in costs. My recommendation will do the same for Defense Agency customers.

In this paper, I will further justify why reporting through the intermediary Defense Agency Accounting Offices is inefficient and unnecessary. I will discuss my recommendation and show you how we can provide more accurate financial information more timely and efficiently. Lastly, you will realize that this recommendation will result in better service our customers.

DISCUSSIONS

OSD fund citations begin with a two-position Treasury Index (TI) code of 97. Defense Agencies and Military Departments receive TI97 funds in a variety of ways. In some cases, they receive funds directly from OSD. Agency examples receiving direct funding are Defense Nuclear Agency (DNA), National Security Agency (NSA), and Defense Intelligence Agency (DIA). Defense Agencies and Military Departments also receive TI97 funds through intermediary Defense Agency Accounting Offices. Intermediary Defense Agency Accounting Office examples are Washington Headquarters Services (WHS), a non-DFAS accounting office, and the DFAS Denver Center Pentagon Office. Most of the TI97 funds that the Army, Navy, and Air Force receive are issued to them through WHS. WHS performs installation accounting for only a portion of the funding it receives and distributes. For example, the portion of the funding WHS issues to the Military Departments is accounted for and recorded in the Military Department's accounting system. However, because WHS issues the funding for some OSD (TI97) appropriations, it feels all reporting must be through its office. WHS and the other intermediary Defense Agency Accounting Offices feel they must perform an intermediary accounting office function of consolidating

financial reports for submission to the office responsible for satisfying all fiduciary and budgetary accounting reporting requirements for these funds. These functions are usually done manually due to the lack of automated applications. The issue of why WHS and its systems are not capitalized is not the subject of this paper because it already is a recommendation in the DFAS strategy (2:4-5). The issue is that the intermediary accounting consolidation function performed by these intermediary Defense Agency Accounting Offices is producing incomplete financial reports, causing unnecessary reporting delays, generating unaffordable costs, and are just simply not necessary. My intention is to show you why this reporting step is inefficient and unnecessary and why OSD and DFAS should eliminate this step by the beginning of the upcoming fiscal year.

The reporting flow does not have to be the same as the fund issuance flow. It is not the same for Army funds and will not be the same for Air Force funds. The reports which the intermediary Defense Agency Accounting Offices prepare are incomplete and do not reflect the complete execution status for the Defense Agency or the Defense appropriation. As example, they reflect only the expenditures reported by the field activities, not the total expenditures on Treasury's books. Right now there are over fifteen TI97 appropriations in the red with Treasury. These abnormalities do not always appear on the intermediary reports. What a shock it is to the appropriation managers when DFAS stops payments for their appropriations when they pull out an intermediary report that shows them with plenty of money. This situation happened time after time

during the transition to the DFAS Indianapolis Center. In this time of close monitorship of NULOs and UMDs, this is unacceptable. Another example of the intermediary reports not being complete is that they generally reflect the correct overall funding; however, cash transfers and withdrawals are not accurately displayed on reports. In both of these cases, the inaccuracies in these reports are a result of the intermediary Defense Agency Accounting Office not having the accurate financial information. This fact further supports my recommendation to eliminate this reporting layer as is being done for our Army and Air Force reporting. We need to let the field activities report directly to the office responsible for satisfying external reporting needs.

Having the intermediary Defense Agency Accounting Offices in the reporting chain is causing unnecessary reporting delays. The field activity reports its execution status for the end of a given month by about the sixth workday of the next month. This means that each Defense Accounting Office (DAO) or Operating Location (OPLOC) reports directly to the DFAS Indianapolis or Denver Center Departmental Accounting Office by the sixth workday. Financial information is validated, reconciled where possible, analyzed and generally checked any way possible to ensure the most accurate financial information resides in the data base. The same basic process happens for the Defense Agencies I mentioned above. DNA, NSA, and DIA receive financial information from their field activities and perform the same reconciliations and analyses. Each DFAS Center that is accounting for TI97 funds issued to them from OSD, but through one of the intermediary Defense Agency Accounting

Offices, reports back to the intermediary office rather than directly to the departmental level. This happens around the fourteenth workday. Reports are due to OSD, Congress, and other external offices on the eighteenth workday. The intermediary Defense Agency Accounting Office has only one day to perform all the reconciliations and analyses and submit reports to the DFAS Indianapolis Center departmental reporting office. Because of a variety of factors to include a continually changing workforce and using manual applications, these intermediary accounting activities continually have problems meeting reporting due dates. During my recent assignment to transition the TI97 departmental reporting function to the DFAS Indianapolis Center, one of the Defense Agency Accounting Offices was as late as forty-five days in their reporting. Resource managers responsible for various TI97 appropriations found this totally unacceptable, not to mention other report recipients. By eliminating the intermediary reporting level, field activities or DFAS Centers could report directly to the DFAS Indianapolis Center Departmental Accounting Office, which is responsible for satisfying all TI97 reporting requirements. DFAS-IN would satisfy all external reporting requirements to include providing the financial information back to the fund issuing offices. This would be in line with ongoing DFAS actions for Army and Air Force customers and could be accomplished with the current departmental systems at the DFAS-IN Center. We need to report financial information from the bottom to the top and let the top satisfy everyone's financial information needs.

The additional reporting level is generating unjustifiable costs that we cannot afford to spend. As I have mentioned several times before, DFAS is implementing direct reporting and eliminating the intermediary accounting offices to improve efficiencies and cut costs for Army and Air Force customers. There are fewer systems to maintain. There are fewer people to pay. Resource managers are receiving more timely financial information. Everyone has more time to resolve NULO, UMD, and other abnormal conditions. Eliminating this extra reporting level gives all the right people more time to do their jobs. Instead of worrying about where the financial data is, they can start evaluating whether they are on target with their programs much sooner and with much more current and accurate financial information.

CONCLUSION

The intermediary Defense Agency Accounting Offices are producing incomplete financial reports. They are causing unnecessary reporting delays and generating unjustifiable costs our customers cannot afford. This intermediary reporting function is not necessary and can be eliminated with minimal effort. We need to produce the most complete and accurate financial reports each month. We need to produce them in a timely manner and at the least cost possible. We need to eliminate any unnecessary functions no matter how painful. We need to streamline the reporting function process and meet the timelines of those who need the financial information. By implementing this recommendation, not only will dollar savings be realized, but our customers will be more

satisfied. We need to bite the bullet now and do what is right, not what is politically acceptable.

RECOMMENDATIONS

The OSD Comptroller and the Director DFAS should direct both the non-DFAS and DFAS intermediary Defense Agency Accounting Offices be eliminated from the reporting chain. In addition, they should direct Defense Agency (Treasury Index 97) Funds be reported directly from the field activities to the DFAS Indianapolis Center Departmental Reporting Office at the beginning of fiscal year 1996 (October 1, 1995).

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